EXHIBIT A

The following language will be incorporated in a Management Directive.

COUNTY OF FRESNO
FUNDING POLICY FOR
WORKERS' COMPENSATION, GENERAL LIABILITY, AND MEDICAL MALPRACTICE SELF-INSURANCE PROGRAMS

Purpose

The County of Fresno is self-insured for General Liability, Workers' Compensation and Medical Malpractice exposures. These insurance programs are accounted for in the Risk Management Internal Service Fund (ISF) which is managed by the Risk Management Division of the Department of Human Resources. Because the County is self-insured, it assumes the financial risk of providing Countywide General Liability coverage, Medical Malpractice coverage for healthcare workers, and Workers' Compensation benefits to all its employees. Fund expenditures are primarily for claims-related payments excess insurance, administrative, legal and prevention costs (safety programs, etc.)

The purpose of establishing this funding policy is to safeguard the County's exposure to financial hardship by ensuring it will have sufficient financial reserves to cover anticipated self-insurance claims and program costs, which can be sizeable, unpredictable, and volatile. A key factor to consider in determining a funding policy is the degree to which stability is desired in the level of contributions (program rates paid by County departments) to the program from year to year. If the County elects to maintain assets at a low funding level, the chances are much greater that future events will prove that additional contributions should have been made from prior years for old claims. Additional contributions for old claims may be required while costs are increasing significantly on new claims, resulting in severe financial strain to the program participants (County departments).

Background

Self-insurance is the term often used to describe an entity's retention of risk of loss rather than transferring that risk to an independent third party through the purchase of an insurance policy. It is typically accompanied by setting aside assets to fund any anticipated losses that may occur under the retained risk. Because the County is self-insured, it assumes the financial risk for providing Countywide General Liability coverage, Medical Malpractice coverage for healthcare workers, and Workers' Compensation benefits to all County employees

The County's self-insurance programs function much like a private insurance company under which County departments are "insured" for losses. These insurance programs are primarily financed by charges (insurance premiums) assessed to County departments for insurance coverage. Additional sources of revenue include subrogation recoveries from third parties and excess insurance carriers, as well as interest earned on program cash reserves.

The County follows accounting and financial reporting standards set by the Government Accounting Standards Board (GASB). In accordance with Government Accounting Standards Board (GASB) Statement #10, state and local government entities are required to report an estimated loss from a claim as an expenditure/expense as a liability if both these conditions are met: (1) information availablebefore the financial statements are issued indicates that it is possible that an asset had been impaired or a liability has been incurred at the date of the financial statements, and (2) the amount of the loss can be reasonably estimated. GASB #10 requires the County to accrue a liability on its financial statements for the ultimate cost of claims and expenses associated with all reported and unreported claims, including allocated loss adjustment expenses (ALAE), unallocated loss adjustment expenses (ULAE) and a discount for anticipated investment income. ALAE is the direct cost associated with the defense of individual claims (e.g., legal fees, investigation fees, court charges). ULAE is the cost to administer all claims to final settlement, which may be years into the future (e.g., claims adjuster's salaries, taxes). The discount for investment income is calculated based on the likely payout pattern of the County's claims, assuming a rate of return on investments per year.

GASB Statement #10 does not address an actual asset requirement for the program (how much to fund the liability), but only addresses the liability to be recorded on the County's financial statements. GASB, however, allows a range of amounts to be recognized for accounting purposes, in formulating a funding policy from a range of alternatives, given the uncertainty in any estimate of the program's liability. The range of funding options depends on the *confidence level* applied to calculate the reserve requirement. A confidence level is an estimated probability that a given level of funding will be adequate to pay actual claims and program costs.

Actuarial Review

To follow GASB Statement #10, the County contracts out for an actuarial review to be performed annually for the self-insured Workers' Compensation, General Liability and Medical Malpractice Programs. The purpose of these actuarial reviews is to assist the County in determining reasonable funding levels for its self-insurance program according to the funding policy the County has adopted and to comply with GASB. These reviews provide the best estimates of the minimum liability that the County needs to report in its financial statements, as well as the recommended range or confidence level of the estimated liability for unpaid loss and loss adjustment expenses (LAE). This liability includes an allowance for incurred, but not reported, claims.

Policy Regarding Reserve Confidence Levels and Annual Funding Confidence Levels

For the purposes of managing the self-insurance programs, there are two measures of confidence level to be concerned with: (1) the reserve confidence level and (2) the annual funding confidence level. The reserve confidence level represents the confidence level of the program assets with respect to the outstanding liabilities for <u>historical claims</u>. (i.e., How confident are we that we have enough money in the bank to pay for the old claims?) The annual funding confidence level represents the confidence level of the budgeted annual program contributions with respect to projected losses for <u>future claims</u>. (i.e., How confident are we that we are budgeting enough money to pay for the new claims which will happen next year?)

It is the Policy of the County of Fresno to maintain program assets for the General Liability, Workers' Compensation and Medical Malpractice programs at a minimum confidence level of 75%. At the discretion of the Risk Manager with approval of the County Administrative Office, these self-insurance programs may accumulate a reserve level in excess of the 75% confidence level. The budgeted annual program contributions will also be targeted at a minimum confidence level of 75%.

Program Deficit and Surplus

In the event that a self-insurance program covered by this policy falls into a deficit position (i.e., estimated program assets are <u>less than</u> the actuarially determined expected liability), the Risk Manager with the approval of County Administrative Officer or his/her designee, may determine a reasonable time frame to boost program assets back to the 75% confidence level. For this purpose, a reasonable time frame to recover the deficit should be between three (3) and five (5) years. If, at any time during the deficit recovery period, the program deficit continues to grow due to an increase in future liability, an additional amount should be considered by the Risk Manager to cover the gap, taking into consideration the financial capacity of the County.

In the event of a program surplus, the Risk Manager, with the approval of the County Administrative Officer or their designee, may choose to increase reserve levels up to the 90% confidence level.

Reference Documents

BAI #15, April 29, 2003
BAI #44, May 3, 2011
BAI #XX, December 14, 2021